

**SBA**

U.S. Small Business  
Administration

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# usiness Plan for the Small Manufacturer

Management

and

Planning

Series

*Building America's Future*

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A business plan can provide the owner-manager or prospective owner-manager of a small manufacturing firm with a pathway to profit. This publication is designed to help an owner-manager draw up a business plan.

In building a pathway to profit you need to consider the following questions: What business am I in? What goods do I sell? Where is my market? Who will buy? Who is my competition? What is my sales strategy? What merchandising methods will I use? How much money is needed to operate my company? How will I get the work done? What management controls are needed? How can they be carried out? When should I revise my plan? Where can I go for help?

No one can answer these questions for you. As the owner-manager you must answer them and draw up a business plan. This publication is a combination of text and workspaces so you can write in the information you gather in developing your business plan.

### ***A Note on Using This Publication***

It takes time, energy and patience to draw up a satisfactory business plan. Use this publication to get your ideas and the supporting facts down on paper. And, above all, make changes on these pages as the plan unfolds and you see the need for changes.

Bear in mind that any factors you leave out of the picture will create an additional cost when they unexpectedly crop up later. If you leave out or ignore enough items, your business is headed for disaster. Keep in mind, too, that your final goal is to put your plan into action. More will be said about this step near the end of this publication.

### ***What's in This for Me?***

There was a time when an individual could start a small business and prosper, provided he or she was strong enough to work long hours and had the knack for selling at a higher price than raw materials or product cost. Small stores, grist mills, livery stables and blacksmith shops sprang up in many crossroads communities as Americans applied their energy and native intelligence to settling the continent.

Today this native intelligence is still important. But by

itself the common sense for which Americans are famous will not ensure success in a small business. Technology, the marketplace and even people themselves have become more complicated than they were one hundred, or even twenty-five, years ago.

Common sense must be combined with new techniques in order to succeed in the space age. Just as one would not think of launching a manned space capsule without a flight plan, one should not think of launching a new small manufacturing business without a business plan.

A business plan is an exciting tool you can use to plot a "course" for your company. Such a plan is a logical progression from a commonsense starting point to a commonsense ending point. To build a business plan for your company, you need only to think and react as a manager to questions such as What product is to be manufactured? How can it best be made? What will it

cost me? Who will buy the product? What profit can I make?

### ***Why Am I in Business?***

If you're like most business people, you're in business to make money and be your own boss. But few business people would be able to say that those are the only reasons. The money you will make from your business will seldom seem like enough for all the long hours, hard work and responsibility that go along with being the boss. Then, why do so many stay in business?

This is hardly the time for philosophy. If you're starting or expanding a business, you have enough to think about. But, whether or not you even think about it, the way you operate your business will reflect your "business philosophy."

Consider this. An owner-manager inspects a production run and finds a minor defect. Even though in nine out of ten cases the user of the product will not notice the defect, the owner decides to scrap the entire run. What does this tell you? It shows that that owner gets an important reward from doing what is right-in this case, providing a quality product.

The purpose of this section is not to play down the importance of making a profit. Profits are important. They will keep your business going and attract additional capital. But you should be aware that there are other rewards and responsibilities associated with having your own business.

In your planning, you might give some thought to your responsibilities to employees, the community, stockholders, customers, product and profit. Jot these down. Later, when you've lined up your management

team, discuss these subjects with the members. This type of group thinking will help everyone, including yourself, understand the basic purposes for each day's work.

Even though you won't advertise it throughout your market, the way you operate your business will reflect your business philosophy.

### ***What Business Am I In?***

In making your business plan, the next question to consider is What business am I really in? At first reading, this question may seem silly. "If there is one thing I know," you say to yourself, "it is what business I'm in." But hold on. Some owner-managers go broke and others waste their savings because they are confused about the business they are really in.

The experience of an old-line manufacturing company provides an example of dealing with this question. Early in this century, the founder of the company had no

trouble answering. As he put it, "I make and sell metal trash cans." This answer held true for his son until the mid-1950s when sales began to drop off. After much thought, the son

Before you plan production, you must decide who your market is, where it is, why customers will buy your product, whether the market is a growth or static one, if there are any seasonal aspects of the market and what percentage of the market you will shoot for in the first, second and third years of operation. Your production goals and plans must be based on and be responsive to this kind of fact finding (marketing feasibility and research).

The following narrative and work blocks are designed to help you work out a marketing plan. Your objective is to determine what needs to be done to bring in sales dollars.

In some directories, marketing information is listed according to the Standard Industrial Classification (SIC) of the product and industry. The SIC categorizes firms by the type of activity they're engaged in and is used to promote the uniformity and comparability of statistical data relating to market research. When you begin your market research, you may find it useful to have already classified your products according to this code. (The

Standard Industrial Classification Manual is available for sale from the Superintendent of Documents, U.S. Government Printing Office, Washington D.C. 20402. It may also be

## **MARKETING**

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decided he was in the container business.

Based on this answer, the company dropped several of its lines of metal trash cans, modified other lines and introduced new products, such as shipping cartons used by other manufacturers and government agencies.

What business am I in? (Write your answer here.)

Ask yourself questions like What does my product do for my customer? Why? When? Where? How? What doesn't it do? What should it do later but doesn't now? The answers can lead to the ultimate conclusion of what business you're in and possibly direct you to new lines of products or enterprises.

When you have decided what business you're really in, you have made your first decision. Now you must face other marketing considerations.

Successful marketing starts with you, the owner-manager. You have to know your product, market, customers and competition.

available at your local library.)

### **Product**

### ***Market Area***

SIC no.

1. Where and to whom are you going **to sell your product?** Describe the market area you will serve in terms of
2. geography and customer profile:

### ***Who Are Your Competitors?***

List the principal competitors selling in your market area, estimate their percentage of **market penetration** and dollar sales in that market and estimate their potential loss of sales as a result of your entry into the market.



\_\_\_\_\_ \$ \_\_\_\_\_ 1.  
 \_\_\_\_\_ \$ \_\_\_\_\_  
 \_\_\_\_\_ \$ \_\_\_\_\_

Name of competitor and location	% share of market	Estimated sales	Estimated sales loss because of you
---------------------------------	-------------------	-----------------	-------------------------------------

.....

.....

What, if anything, is unique about your product?

### How Do You Rate Your Competitors?

Try to find out the strengths and weaknesses of each competitor. Then write your opinion of each of your principal competitors, their principal products, facilities, marketing characteristics and new product development or adaptability to changing market conditions.

On what basis will you be able to capture your projected share of the market? Below is a list of characteristics that may indicate the advantages your product(s) enjoy over those offered by competitors. Indicate those advantages by placing a check in the proper space. If there is more than one competitor, you may want to make more than one checklist. Attach these to the worksheet.

Analyze each characteristic. For example, a higher price may not be a disadvantage if your product is of higher quality than your competitor's. You may want to make a more detailed analysis than is presented here. If you wish to list the specifics of each characteristic and explain the disadvantages of your product and how these will be overcome, attach this list to the worksheet. The unique characteristics of your product can also be the basis for advertising and sales promotion. Remember, the more

extensive your planning, the more your business plan will help you.

How will you get your product to the ultimate consumer? Will you sell it directly through your own sales organization or indirectly **through the manufacturer's** agents, brokers, wholesalers and so on? Write a brief statement of your method of **distribution and manner** of sales:

What will this method of distribution cost you?

Do you plan to use special marketing, sales or merchandising techniques? Describe them here:

List your customers by name, the total amount they buy from you and the amount they spend for each of your products.

Have any of your competitors recently closed operations or have they withdrawn from your market area? (State reasons if you know them.)

Di:

### Product(s)

#### Product no.1

Price ..... Performance .....  
 Durability .....  
 Versatility .  
 Speed or accuracy  
 Ease of operation or use .....  
 Ease or cost of installation ....  
 Size or weight .....  
 Style or appearance .....  
 Other characteristics not listed:

### Advantages over Competitors

#### Product no.2

Names of principal customers	Total purchasing volume	By - products	% of your sales
------------------------------------	-------------------------------	------------------	--------------------

### Market Trends

What has the sales trend for your principal product(s) been in your market area over the last five years? What do you expect it to be five years from now? You should indicate the source of your data and the basis of your projections.\* Industry and product statistics are usually indicated in dollars. Units, such as numbers of customers, numbers of items sold, etc., may be used, but you should also relate your sales to dollars.

Product	Source of data	Sales	Current sales	Projected
		five years ago		sales in five years
1.				
2.				

List the name and address of trade associations serving your industry and indicate whether you are a member:

List the name and address of other organizations, government agencies, industry associations, etc., from which you intend to obtain management, technical, economic or other types of information and assistance:

### Share of the Market

What percentage of total sales in your market area do you expect to obtain for your products after your facility is in full operation?

Products or products category	Local market	Total market
----------------------------------	-----------------	-----------------

### Sales Volume

What sales volume do you expect to reach with your products?

	Total	Product	Product
	sales	1	2
First year	\$	\$	\$
Units			
Second year	\$		\$
Units			
Third year	\$	\$	\$
Units			

\*This is a marketing research problem. You will have to do some digging in order to come up with a market projection. Trade associations will probably be your most helpful source of information. The U.S. Census Bureau publishes many useful statistics.



# PRODUCTION

In making your business plan, you have to consider all the activities **involved in turning raw materials into finished** products. The work blocks that follow are designed to help you determine what production facilities and equipment you need.

## Manufacturing Operations

List the basic operations (e.g., cut and sew, machine and assemble, etc.) that are needed in order to make your product:

## Raw Materials

What raw materials or components will you need and where will you get them?

Material/ component Source	Price	Comments (location, delivery, financing, etc.)
	\$	
	\$	

What amount of raw materials and/or components will you need to stock?

Are there any special considerations concerning the storage requirements of your raw material? For example, will you use chemicals that can only be stored for a short time before they lose their potency?

## Equipment

List the equipment needed to perform the manufacturing operations. Indicate whether you will rent or buy the equipment and what your cost will be.

Equipment	Buy	Rent	Your cost
-----------	-----	------	-----------

Your equipment facilities and method of operation must comply with the Occupational Safety and Health Act of 1970. You may obtain a copy of Standards for General Industry from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or a field office of the Occupational Safety and Health Administration.

## Labor Skills

List the labor skills needed to run the equipment:

Skill classification	Number of persons needed	Pay rate	Availability
-------------------------	--------------------------------	-------------	--------------

List the indirect labor (e.g., material handlers, stockpersons, janitors, etc.) needed to keep the plant operating:

Skill classification	Number of persons needed	Pay rate	Availability
-------------------------	--------------------------------	-------------	--------------



If persons with these skills are not already on your payroll, where will you get them?

Do you own this space or will you buy or lease it?

How much will it cost you?

### **Space**

How much space will you need to make the product? Include rest rooms, storage for raw material and for finished products and employee parking facilities if appropriate. Are there any local ordinances with which you must comply?

### **Overhead**

List **the overhead items needed in addition to indirect labor** and include their cost. Examples are tools, supplies, utilities, office help, telephone, payroll taxes, holidays, vacations and salaries and benefits for your key people (sales manager, plant manager and supervisor).

## **HOW MUCH MONEY IS NEEDED?**

Money is a tool you can use to make your plan work. Money is also a measuring device. You will measure your plan in terms of dollars, and outsiders, such as bankers

and other lenders, will do the same.

When you determine how much money is needed to start (or expand) your business, you can decide whether or not to move ahead. If the cost is greater than the profits that the business can earn, there are two things to consider. Many businesses do not show a profit until the second or third year of operation. If this looks like the case with

your business, you will need the financial reserves to carry you through this period. On the other hand, you might be better off putting your money into stocks, bonds or other reliable investments rather than taking on the job of managing a small business.

If your new business or expansion is like most, you will need a loan. You must be able to show the lender how the borrowed money will be spent and how and when you will repay the loan. To determine whether your plan is economically feasible, you need to pull together three sets

of figures:

- 1 . Expected sales and expense figures for 12 months.
2. Cash **flow** figures for 12 months.

3. Current balance sheet figures, if you're planning an expansion.

Then visit your lender and remember that he or she is

your friend, not your enemy. So, meet regularly and share all your information. If the lender is ready to help you, he or she needs to know not only your strengths, but also your weaknesses.

### **Expected Sales and Expenses Figures**

To determine whether or not your business can make its way in the market place, you should estimate your sales and expenses for twelve months. The Income Projection Statement for one year is designed to help you in this task.

### **Cash Flow Projection**

Estimates of future sales will not pay an owner-manager's bills. Cash must **flow** into the business at the proper times

if bills are to be paid and a profit realized at the end of the year. To determine whether your projected sales and expenses figures are realistic, you should prepare a Cash Flow Projection for the 12 months covered by your estimates of sales and expenses.



## Current Balance Sheet Figures

A balance sheet shows the financial conditions of a business as of a certain date. It lists what a business has,

Your manufacturing business is only part way home when you have planned your marketing and production. Organization is

## GETTING THE WORK DONE

needed if your plant is to produce what you expect it to produce. It is also essential because as the owner-manager, you'll probably have to delegate work, responsibility and authority. A helpful tool in getting this done is an organizational chart. It shows at a glance who is responsible for the major activities of a business. However, no matter how your operation is organized,

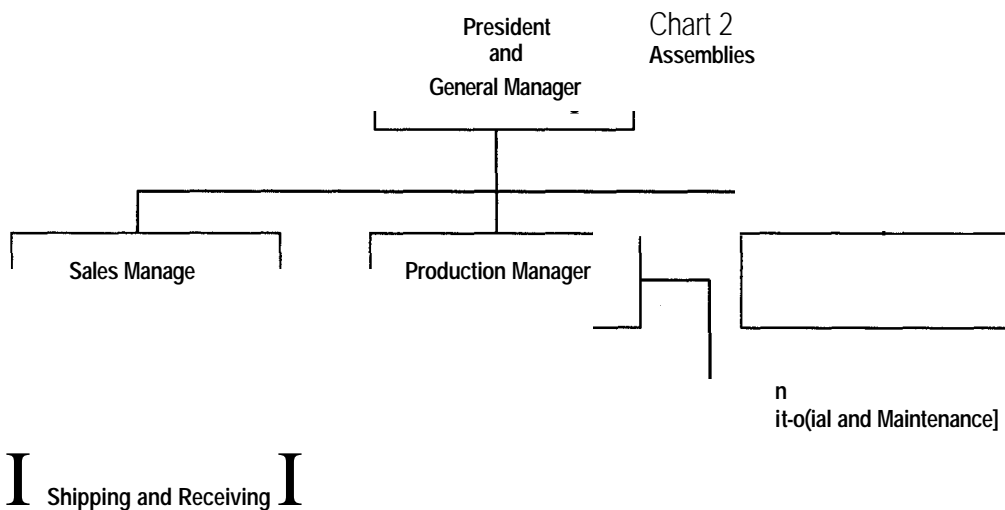
what it owes and the investment of the owner. A balance sheet enables you to see at a glance your assets and liabilities.

Use the blanks to draw up a current balance sheet for your company.

keep control of the financial management. Examples are given below to help you in preparing an organizational chart for your business.

In the beginning, the president of a small manufacturing company probably does everything. (See Chart 1.)

As the company grows to perhaps fifty to one hundred employees, the organization may begin to look something like Chart 2.





## Controller

Sal

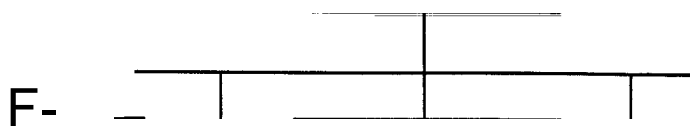
Advertising Purchasing

Assembly Quality Control]

**U.S. Small Business Administration**

### Chart 3

President  
(Your Name)



In the above space or on a separate piece of paper, draw an organizational chart for your business.

It is important that you recognize your weaknesses early in the game and plan to get assistance wherever you need it. This may

be done by using consultants on an as-needed basis, by hiring the needed personnel or by retaining a lawyer and accountant.

The work block below lists some of the areas you may want to consider. Adapt it to your needs and indicate who will take care of each function. (One name may appear more than once.)

Manufacturing

Marketing

Research and technical backup

Accounting

Legal

Insurance

Other:



## MAKING YOUR PLAN WORK

To make your plan work you will need feedback. For **example, the year-end profit and loss (income) statement** shows whether your business made a profit or loss for the past twelve months.

But you can't wait twelve months for the score. To keep

your plan on target you need readings at frequent

intervals. A profit and loss statement at the end of each

month or at the end of each quarter is one type of frequent feedback. Beware of relying too heavily on the profit and

loss statement. Since it only shows actual income and

expenses for a given period, you may find that at certain times you have more losses than profits. To keep a balanced perspective on your business, you must continuously review and update your cash flow projection. This will help you to anticipate changing levels of income and expenses.

You must set up a management control system that will help you to ensure the right things are being done from day to day and from week to week. This system should

give you precise information on inventory, production, quality, sales, collection of accounts receivable and

disbursements. The simpler the system, the better. Its purpose is to give you and your key people current information in time to correct deviations from approved policies, procedures or practices. You are after facts with an emphasis on trouble spots.

### **Inventory Control**

The purpose of controlling inventory is to provide

maximum service to your customers. Your aim should be

to achieve a rapid turnover on your inventory; the fewer dollars you tie up in raw materials and finished goods inventory, the faster you can reinvest your capital to meet additional consumer needs.

In setting up inventory controls, keep in mind that in

addition to the cost of inventory, there are also the costs of purchasing, receiving and storing raw materials and the cost of keeping inventory records.

### **Production**

In preparing this business plan, you have estimated costs for your manufacturing operation. Use these figures to measure the cost of your day-to-day operations to ensure that profits are not eaten away through excessive worker hours, processing time, delays or down time. Periodic

### **Quality Control**

Poorly made products cause a company to lose customers. In addition, when a product fails to perform satisfactorily, shipments are held up, inventory is increased and a severe financial strain can result. Moreover, when quality is

poor, it's a good bet that waste and spoilage on the

production line are greater than they should be.

A quality control system focuses on one question: What

needs to be done to see that work is done right the first time? The details of the system--checkpoints, reports and so on--will depend on your type of production system. Also keep in mind any extensive quality control needed on raw materials--this can be an added expense.

### **sales**

To keep on top of sales, you need answers to questions

such as How many sales were made? What was the dollar amount? What products were sold? At what price? What

delivery dates were promised? What credit terms were given to customers?

It is also important that you set up an effective collection system for accounts receivable, so you don't tie up your capital in aging accounts.

### **Disbursements**

Your management controls should also give you

information about the dollars your company pays out. In

-wise

checking on your bills, you do not want to be penny and pound-foolish. You need to know that major items, such as paying bills on time to get a supplier's discount, are being handled according to your policies. Your review system should also give you the opportunity to make

judgments on the use of funds. This will keep you on top of emergencies as well as routine situations. Your system should also monitor that tax monies, such as payroll

deductions, are set aside and deposited at the proper time.

### **Breaking Even**

Break-even analysis is a management control device that shows how much you must sell under given conditions in order to cover your costs with no profit and no loss.

In preparing to start or expand a manufacturing business

production reports will allow you to keep your finger on potential drains on your profits and should also provide feedback on your overhead expenses.

you should determine the approximate level of sales at which a new product will pay for itself and begin to bring in a profit.

*U.S. Small Business Administration*

Profit depends on sales volume, selling price and costs. So, to figure your break-even point, first separate your fixed costs, such as rent or depreciation allowance, from your variable costs per unit, such as direct labor. The formula is

Break-even volume =  $\frac{\text{total fixed costs}}{\text{selling price} - \text{variable cost per unit}}$

For example, Ajax Plastics has determined its fixed costs to be \$100,000 and variable costs to be \$50 per unit. If the selling price per unit is \$100, then Ajax's break-even volume is

$$\begin{aligned} \$100,000 &= 2000 \text{ units} \\ \$100 - 50 \end{aligned}$$

Earlier you estimated your expected sales for each product and total sales. **Compute the break-even point** for each.

Product 1:                      Product 2:                      Total sales:

## KEEPING YOUR PLAN CURRENT

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The best business plan becomes outdated because conditions change. Sometimes the change is within your company—for example, several of your skilled operators quit their jobs. Sometimes the change is with customers—their desires and tastes shift. For example, a new idea can sweep the country in six months and die overnight. Sometimes the change is technological as when new raw materials or components are put on the market.

In order to adjust a business plan to account for such changes, as owner-manager you must do the following:

1. Be alert to the changes that come about in your company, industry, market and community.
2. Check your business plan against these changes.
3. Determine what revisions, if any, are needed in your plan.

You may be able to delegate parts of this work. For example, you might assign your shop supervisor the task of watching for technical changes as reported in trade journals. Or you might expect your sales manager to keep you informed of significant changes occurring in your markets. But you cannot delegate the hardest part of this work. You cannot delegate the decisions as to what

revisions will be made in your plan. As owner-manager you have to make those judgments on an ongoing basis.

When judgments are wrong, cut your losses as soon as possible and learn from the experience. The mental anguish caused by wrong judgments is part of the price paid for being your own boss. You get your rewards from the satisfaction and profits that result from correct judgments.

Sometimes serious problems can be anticipated and a course of action planned. For example, what if sales are 25 percent lower than you anticipated or costs are

10 percent higher? You have prepared what you consider a reasonable budget. It might be a good idea to prepare a "problem budget," based on either lower sales, higher costs or a combination of the two.

You will also have to exercise caution if your sales are higher than you anticipated. The growth in sales may only be temporary. Plan your expansion. New equipment and additional personnel could prove to be crippling if sales return to a previous lower level.

Keep in mind that few owner-managers are right 100 percent of the time. They can improve their batting average by operating with a business plan and by keeping that plan current.



[illegible]



profit (loss)  
er taxes

## INSTRUCTIONS FOR INCOME PROJECTION STATEMENT

The income projection (profit and loss) statement is valuable as both a planning tool and a key management tool to help control business operations. It enables the owner-manager to develop a preview of the amount of income generated each month and for the business year, based on reasonable predictions of monthly levels of sales, costs and expenses.

As monthly projections are developed and entered into the income projection statement, they can serve as definite goals for controlling the business operation. As actual operating results become known each month, they should be recorded for comparison with the monthly projections. A completed income statement allows the owner-manager to compare actual figures with monthly projections and to take steps to correct any problems.

### **Industry Percentage**

In the industry percentage column, enter the percentages of total sales (revenues) that are standard for your industry, which are derived by dividing

cost/expense items  
total net sales

. x 100%

These percentages can be obtained from various sources, such as trade associations, accountants or banks. The reference librarian in your nearest public library can refer you to documents that contain the percentage figures, for example, Robert Morris Associates' *Annual Statement Studies* (One Liberty Place, Philadelphia, PA 19103).

Industry figures serve as a useful benchmark against which to compare cost and expense estimates that you develop for your firm. Compare the figures in the industry percentage column to those in the annual percentage column.

### **Total Net Sales (Revenues)**

Determine the total number of units of products or services you realistically expect to sell each month in each department at the prices you expect to get. Use this step to create the projection to review your pricing practices.

What returns, allowances and markdowns can be expected?

Exclude any revenue that is not strictly related to the business.

### **Cost of Sales**

The key to calculating your cost of sales is that you do not overlook any costs that you have incurred. Calculate cost of sales for all products and services used to determine total net sales. Where inventory is involved, do not overlook transportation costs. Also include any direct labor.

### **Gross Profit**

Subtract the total cost of sales from the total net sales to obtain gross profit.

### **Gross Profit Margin**

The gross profit is expressed as a percentage of total sales (revenues). It is calculated by dividing gross profits total net sales

### **Controllable Expenses.**

Salary expenses-Base pay plus overtime.

Payroll expenses-Include paid vacations, sick leave, health insurance, unemployment insurance and social security taxes.

Outside services-Include costs of subcontracts, overflow work and special or one-time services.

Supplies-Services and items purchased for use in the business.

Repairs and maintenance-Regular maintenance and repair, including periodic large expenditures such as painting.

- Advertising-Include desired sales volume and classified directory advertising expenses.

- Car, delivery and travel-Include charges if personal car is used in business, including parking, tolls, buying trips, etc.

Accounting and legal--Outside professional services.

- **Fixed Expenses**

- Rent-List only real estate used in the business.

Depreciation-Amortization of capital assets.

.

- Utilities-Water, heat, light, etc.
- Insurance-Fire or liability on property or products. Include workers' compensation.
- Loan repayments-Interest on outstanding loans.
- Miscellaneous-Unspecified; small expenditures without separate accounts.

Net Profit (loss) (before taxes)	o	Subtract total expenses from gross profit.
Taxes	o	Include inventory and sales taxes, excise tax, real estate tax, etc.
Net Profit (loss) (after taxes)	o	Subtract taxes from net profit (before taxes).
Annual Total	o	For each of the sales and expense items in your income projection statement, add all the monthly figures across the table and put the result in the annual total column.
Annual Percentage		Calculate the annual percentage by dividing $\frac{\text{annual total}}{\text{total net sales}} \times 100\%$ Compare this figure to the industry percentage in the first column.



[illegible]

Cash on hand same as (7), Cash position, previous month	
Cash sales	All cash sales. Omit credit sales unless cash is actually received.
Receivables from credit accounts	Amount to be expected from all credit accounts. Indicate here all cash injections not shown in 2(a) or 2(b) above.
Cash receipts	
(b + 2c = 3)	
Cash available	
Cash out (I + 3)	
Cost of goods sold	Merchandise for resale or for use in product (paid for in current month)
Purchases (merchandise)	Base pay plus overtime (if any)
Wages (excludes withdrawals)	Include paid vacations, paid sick leave, health insurance, unemployment insurance, etc. (this might be 10 to 45% of 5(b))
Roll expenses (taxes, etc.)	This could include outside labor and/or material for specialized or overflow work, including subcontracting
Outside services	Items purchased for use in the business (not for resale)
Utilities (office and operating)	Include periodic large expenditures such as painting or decorating
Repairs and maintenance	This amount should be adequate to maintain sales volume
Advertising	If personal car is used, charge in this column, include parking
Freight, delivery and travel	Outside services, including, for example, bookkeeping
Printing and legal	Real estate only (See 5(p) for other rentals)
Insurance	Water, heat, light and/or power Coverages on business property and products (fire, liability); also worker's compensation, fidelity, etc. Exclude executive life (include in 5(w)) Plus inventory tax, sales tax, excise tax, if applicable Remember to add interest on loan as it is injected (See 2(c) above) Unexpected expenditures may be included here as a safety factor Equipment expensed during the month should be included here (non-capital equipment) When equipment is rented or leased, record payments here Small expenditures for which separate accounts would not be practical This subtotal indicates cash out for operating costs Include payment on all loans, including vehicle and equipment purchases on time payment Nonexpensed (depreciable) expenditures such as equipment, building, vehicle purchases and leasehold improvements Expenses incurred prior to first month projection and paid for after start-up Example: insurance, tax or equipment escrow to reduce impact of large periodic payments Should include payment for such things as owner's income tax, social security, health insurance, executive life insurance premiums, etc.
Other expenses (specify each)	

Enter this amount in (1) Cash on hand following month.

This is basic information necessary for proper planning and for proper cash flow projection. In conjunction with this data, the cash flow can be evolved and shown in the above form. **Net income** is a very important figure and should be estimated carefully, taking into account size of facility and employee output as well as realistic anticipated sales (actual sales, not orders received). Previous unpaid credit sales plus current month's credit sales, less amounts received current month (deduct "C" below) Bad debts should be subtracted from (B) in the month anticipated Last month's inventory plus merchandise received and/or manufactured current month minus amount sold current month Previous month's payable plus current month's payable minus amount paid during month Established by your accountant, or value of all your equipment divided by useful life (in months) as allowed by Internal Revenue Service

Cash on hand  
beginning of month)

ceRmeous (unspecified)  
total  
n principal payment  
ital purchases (specify)  
er start-up costs  
erve and/or escrow (specify)  
vner's withdrawal  
i paid out  
ough 5w)  
tion  
month) (4 minus 6)  
ial operating data  
ish flow information)

Sales volume (doflars)

Accounts receivable (end of month)  
Bad debt (end of month)  
Inve tory on hand (end of month)  
Accounts payable (end of month)  
Depreciation

## APPENDIX C: BALANCE SHEET

COMPANY NAME

Financial Statement Worksheet			
Assets		Liabilities and Net Worth	
As of _____		Liabilities	
		Current liabilities	
		Accounts payable	
		Notes payable	
		Interest payable	
	\$ _____	Taxes payable	\$ _____
	\$ _____		
	\$ _____	Federal income tax	\$ _____
	\$ _____	State income tax	
	\$ _____	Self-employment tax	
	\$ _____	Sales tax (SBE)	\$ _____
Assets	\$ _____	Property tax	\$ _____
	\$ _____	Payroll accrual	\$ _____
Current assets	\$ _____	Long-term liabilities	\$ _____
Cash	\$ _____	Notes payable	\$ _____
Petty cash	\$ _____		\$ _____
Accounts receivable			
Inventory			
Short-term investments			\$ _____
Prepaid expenses	\$ _____		
	\$ _____		
Long-term investments	\$ _____	Total liabilities	\$ _____
	\$ _____		
Fixed assets	\$ _____	Net worth (owner equity)	
Land		Proprietorship	\$ _____
Buildings	\$ _____	or	
Improvements	\$ _____	Partnership name	\$ _____
Equipment	\$ _____	equity name	\$ _____
Furniture		s~ equity	\$ _____
Automobiles/vehicles			
1.	\$ _____	or	\$ _____
2.	\$ _____	Corporation	\$ _____
3.	\$ _____	Capital stock	\$ _____
4.	\$ _____		\$ _____
<b>Total assets</b>	<b>\$ _____</b>	<b>Total liabilities and total net worth</b>	<b>\$ _____</b>



Total net worth

*(Total assets will always equal total liabilities and total net worth.)*

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## INSTRUCTIONS FOR BALANCE SHEET

Figures used to compile the balance sheet are taken from the previous and current balance sheet as well as the current income statement. The income statement is usually attached to the balance sheet. The following text covers the essential elements of the balance sheet. At the top of the page fill in the legal name of the business, the type of statement and the day, month and year.

### *Assets*

List anything of value that is owned or legally due the business. Total assets include all net values. These are the amounts derived when you subtract depreciation and amortization from the original costs of acquiring the assets.

### *Current Assets*

- Cash-List cash and resources that can be converted into cash within 12 months of the date of the balance sheet (or during one established cycle of operations). Include money on hand and demand deposits in the bank, e.g., checking accounts and regular savings accounts.
- Petty cash-If your business has a fund for small miscellaneous expenditures, include the total here.
- *Accounts receivable*-The amounts due from customers in payment for merchandise or services.
- *Inventory*--Includes raw materials on hand, work in progress and all finished goods, either manufactured or purchased for resale.
- *Short-term investments*-Also called temporary investments or marketable securities, these include interest- or dividend-yielding holdings expected to be converted into cash within a year. List stocks and bonds, certificates of deposit and time-deposit savings accounts at either their cost or market value, whichever is less.
- *Prepaid expenses*--Goods, benefits or services a business buys or rents in advance. Examples are office supplies, insurance protection and floor space.

### *Long-term Investments*

Also called long-term assets, these are holdings the business intends to keep for at least a year and that typically yield interest or dividends. Included are stocks, bonds and savings accounts earmarked for special purposes.

### *Fixed Assets*

Also called plant and equipment. Includes all resources a business owns or acquires for use in operations and not intended for resale. Fixed assets, except for land, are listed at cost less depreciation. Fixed assets may be leased. Depending on the leasing arrangement, both the value and the liability of the leased property may need to be listed on the balance sheet.

- Land-List original purchase price without allowances for market value.

#### ◦ *Buildings*

#### ◦ *Improvements*

#### ◦ *Equipment*

#### ◦ *Furniture*

#### ◦ *Automobiles/vehicles*

### *Liabilities*

#### **Current Liabilities**

List all debts, monetary obligations and claims payable within 12 months or within one cycle of operations.

Typically they include the following:

- \* *Accounts payable*-Amounts owed to suppliers for goods and services purchased in connection with business operations.
- \* *Notes payable*-The balance of principal due to pay off short-term debt for borrowed funds. Also include the current amount due of total balance on notes whose terms exceed 12 months.  
*Interest payable*-Any accrued fees due for use of both short- and long-term borrowed capital and credit extended to the business.

- Taxes payable-Amounts estimated by an accountant to have been incurred during the accounting period.
- Payroll accrual-Sales and wages currently owed.

#### **Long-term Liabilities**

*Notes payable*-List notes, contract payments or mortgage payments due over a period exceeding 12 months or one cycle of operations. They are listed by outstanding balance less the current portion due.

#### *Net Worth*

Also called owner's equity, net worth is the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, equity is each owner's original investment plus any earnings after withdrawals.

#### *Total Liabilities and Net Worth*

The sum of these two amounts must always match that for total assets.





The following pages provide a suggested outline of the material that should be included in your business plan. Your final plan may vary according to your needs or because of the individual requirements of your lender.

### *What Are the Benefits?*

Every business can benefit from the preparation of a carefully written plan. There are two main purposes for writing that plan:

1. To serve as a guide during the lifetime of the business. It is the

A business plan is a requirement if you are planning to seek a loan. It will provide potential lenders with detailed information on all aspects of your company's past and current operations and provide future projections.

blueprint of your business and will provide you with the tools for analysis and change.

2.

- *Business Plan Outline*
- 1. Cover sheet  
Serves as the title page of your business plan.  
It should contain the following:

- Name of the company
- Company address
- Company phone number (include area code)
- Logo (if you have one)
- Names, titles, addresses, phone numbers (include area code) of owners
- Month and year your plan was issued
- Name of preparer

#### **H. Statement of purpose**

- (Same as executive summary.) This is the thesis statement and
- includes business plan objectives. Use the key words
- (who, what, where, when, why, how, and how much) to
- briefly tell about the following:

What your company is (also who, what, where and when). What your objectives are. If you need a loan, why you need it. How much you need. Why you will be

#### **III. Table of contents**

A page listing the major topics and references.

#### **IV. The business**

Covers the details of your business. Include information about your industry in general, and your business in particular. Address the following:

- Legal structure-Tell what legal structure you have chosen and state reasons for your choice.
- *Description of the business*-Detail your business. Tell about your history, present status and future projections. Outline your product or service in terms of marketability. Project a sense of what you expect to accomplish in the next few years.  
*Products or services*-Give a detailed description of your products from raw materials to finished items. Tell about your manufacturing process. If you provide a service, tell what it is, how it is provided and why it is unique. List future products or services you plan to provide.  
*Location*-Describe site and why it was chosen. (If location is important to your marketing plan, focus on this in the marketing section below.)  
*Management*-Describe who is behind the business. For each owner, tell about responsibilities and abilities. Support with resumes.  
*Personnel*-Who will be doing the work, why are they qualified, what is their wage, what are their responsibilities?  
*Methods of record keeping*-What accounting system will you use? Who will do your record keeping? Do you have a plan to help you use your records in analyzing your business?  
*Insurance*-What kinds of insurance will you need? What will these cost and who will you use for a carrier?  
*Security*-Address security in terms of inventory control and theft of information.

#### **V. Marketing**

Covers the details of your marketing plan. Include information about the total market with emphasis on your target market. Identify

successful. How and when you plan to repay your loan.

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your customers and tell about the means to make your product or service available to them.

- **Target market**-Identify characteristics of your customers. Tell how you arrived at your results. Back up information with demographics, questionnaires and surveys. Project size of your market.
- **Competition**-Evaluate indirect and direct competition. Show how you can compete. Evaluate competition in terms of location, market and business history.
- **Methods of distribution**-Tell about the manner in which products and services will be made available to the customer. Back up decisions with statistical reports, rate sheets, etc.
- **Advertising**-How will your advertising be tailored to your target market? Include rate sheets, promotional material and time lines for your advertising campaign.
- **Pricing**-Pricing will be determined as a result of market research and costing your product or service. Tell how you arrived at your pricing structure and back it up with materials from your research.
- **Product design**-Answer key questions regarding product design and packaging. Include graphics and proprietary rights information.
- **Timing of market entry**-Tell when you plan to enter the market and how you arrived at your decision.
- **Location**-If your choice of location is related to target market, cover it in this section of your business plan. (See location in the business section of this outline.)
- **Industry trends**--Give current trends, project how the market may change and what you plan to do to keep up.

## VI. Financial documents

These are the records used to show past, current and projected finances. The following are the major documents you will want to include in your business plan. The work is easier if these are done in the order presented.

- **Summary of financial needs**-This is an outline indicating why you are applying for a loan and how much you need.
- **Sources and uses of funds statement**-It will be necessary for you to tell how you intend to disperse the loan funds. Back up your statement with supporting data.

### *Cashflow statement (budget)*-This

document projects what your business plan means in terms of dollars. It shows cash inflow and outflow over a period of time and is used for internal planning.

**Cash flow** statements show both how much and when cash must **flow** in and out of your business.

**Three-year income projection**-A pro forma income statement showing your projections for your company for the next three years. Use the pro forma cash flow statement for the first year's figures and project the next according to economic and industry trends.

**Break-even analysis**-The break-even point is when a company's expenses exactly match the sales or service volume. It can be expressed in total dollars or revenue exactly offset by total expenses or total units of production (cost of which exactly equals the income derived by their sales). This analysis can be done either mathematically or graphically.

**NOTE:** *The following are actual performance statements reflecting the activity of your business in the past. If you are a new business owner, your financial section will end here and you will add a personal*

*financial history. If you are an established business, you will include the actual performance statements that follow.*

**Balance sheet**-Shows the condition of the business as of a fixed date. It is a picture of your firm's financial condition at a particular moment and will show you whether your financial position is strong or weak. It is usually done at the close of an accounting period, and contains assets, liabilities and net worth.

### **Income (profit and loss) statement**

Shows your business financial activity over a period of time (monthly, annually).

It is a moving picture showing what has happened in your business and is an excellent tool for assessing your business. Your ledger is closed and balanced and the revenue and expense totals transferred to this statement.



Businessfinancial history-This is a summary of financial information about your company from its start to the present. The business financial history and loan application are usually the same. If you have completed the rest of the financial section, you should be able to transfer all the needed information to this document.

- Contracts-Include all business contracts, both completed and currently in force.
- Legal documents-All legal papers pertaining to your legal structure, proprietary rights, insurance, titles, etc.
- Miscellaneous documents-All other documents that have been referred to, but are not included in the main body of the plan (e.g., location plans, demographics, advertising plan, etc.).

#### VU. **Supporting documents**

These are the records that back up the statements and decisions made in the three main parts of your business plan. Those most commonly included are as follows:

- Personal resumes-Should be limited to one page and include work history, educational background, professional affiliations and honors and special skills.
- Personal financial statement-A statement of personal assets and liabilities. For a new business owner, this will be part of your financial section.
- Credit reports-Business and personal from suppliers or wholesalers, credit bureaus and banks.
- Copies of leases-All agreements currently in force between your company and a leasing agency.
- Letters of reference-Letters recommending you as being a reputable and reliable businessperson worthy of being considered a good risk. (Include both business and personal references.)

#### ***Putting Your Plan Together***

When you are finished: Your business plan should look professional, but the lender needs to know that it was done by you. A business plan will be the best indicator he or she has to judge your potential for success. It should be no more than 30 to 40 pages long. Include only the supporting documents that will be of immediate interest to your potential lender. Keep the others in your own copy where they will be available on short notice. Have copies of your plan bound at your local print shop, or with a blue, black or brown cover purchased from the stationery store. Make copies for yourself and each lender you wish to approach. Do not give out too many copies at once, and keep track of each copy. If your loan is refused, be sure to retrieve your business plan. For a more detailed explanation of each section of the business plan outline, see SBA's publication, *How to Write a Business Plan*, which includes step-by-step directions and sample sections of actual business plans. Also available from the SBA is a VHS videotape and workbook, "The Business Plan: Your Roadmap for Success."





## APPENDIX E: INFORMATION RESOURCES

### ***U.S. Small Business Administration (SBA)***

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy write to: SBA Publications, P.O. Box 1000, Fort Worth, TX 76119.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- Service Corps of Retired Executives (SCORE), a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- Small Business Development Centers (SBDCs), sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- Small Business Institutes (SBIs), organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

### ***Other U.S. Government Resources***

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major

cities and are listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject Bibliography* by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications,

contact the regional offices listed in the telephone directory or write to the addresses below:

### **Consumer Information Center (CIC)**

P.O. Box 100  
Pueblo, CO 81002  
The CIC offers a consumer information catalog of federal publications.

### **Consumer Product Safety Commission (CPSC)**

Publications Request  
Washington, DC 20207  
The CPSC offers guidelines for product safety requirements.  
**U.S. Department of Agriculture (USDA)**  
12th Street and Independence Avenue, SW  
Washington, DC 20250  
The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

**U.S. Department of Commerce (DOC)**  
Office of Business Liaison  
14th Street and Constitution Avenue, NW  
Room 5898C  
Washington, DC 20230  
DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal

agencies.

**U.S. Department of Health and Human Services (HHS)**  
Public Health Service  
Alcohol, Drug Abuse and Mental Health  
Administration  
5600 Fishers Lane  
Rockville, MD 20857  
Drug Free Workplace Helpline: 1-800-8434971. Provides information on Employee Assistance Programs.  
National Institute for Drug Abuse Hotline:  
1-800-6624357. Provides information on preventing

substance abuse in the workplace.

The National Clearinghouse for Alcohol and Drug Information: 1-800-729-6686 toll-free. Provides pamphlets

and resource materials on substance abuse.



**U.S. Department of Labor (DOL)**  
**Employment Standards Administration**  
200 Constitution Avenue, NW  
Washington, DC 20210  
The DOL offers publications on compliance with labor laws.

**U.S. Department of Treasury**  
**Internal Revenue Service (IRS)**  
P.O. Box 25866  
Richmond, VA 23260  
1-800-424-3676  
The IRS offers information on tax requirements for small businesses.

**U.S. Environmental Protection Agency (EPA)**  
**Small Business Ombudsman**  
401 M Street, SW (A-149C)  
Washington, DC 20460  
1-800-368-5888 except DC and VA  
703-557-1938 in DC and VA  
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

**U.S. Food and Drug Administration (FDA)**  
**FDA Center for Food Safety and Applied Nutrition**  
200 Charles Street, SW  
Washington, DC 20402  
The FDA offers information on packaging and labeling requirements for food and food-related products.

### *For More Information*

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

#### **Trade association information**

Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.

#### **\* Books**

Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check *Books In Print*, a directory of books currently available from publishers.

#### **\* Magazine and newspaper articles**

Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.



